Monthly Market Review

TrustINdiana

Market Commentary for February 2010

MIXED RESULTS AS THE YEAR GETS UNDERWAY

The United States economy grew at a faster rate in the fourth quarter than was previously estimated. Gross Domestic Product (GDP) growth was revised upwardly from 5.7 percent to 5.9 percent, making for the strongest quarter of growth in six years. Despite this robust ending to 2009, the economy shrank overall in 2009 by 2.4 percent. For 2010, economic growth is expected to continue, but likely at a pace below historical norms.

The unemployment rate stayed at 9.7 percent in February, and job cuts moderated, raising hopes that the economy may begin to add jobs in the near future. However, it is possible that the official unemployment rate may increase even if payrolls increase as people who had given up looking for work begin to join the ranks of job searchers. Most forecasts suggest that meaningful job creation will not occur until 2011 or even 2012.

Leading consumer indicators suggest that concerns about the sustainability and strength of the recovery remain in the minds of U.S. consumers. The Conference Board index of consumer confidence dropped more than 10 points in February to 46 from an upwardly revised 56.5 in January. The component of the index that measures future expectations of the economy led the fall, however attitudes regarding current conditions also sank. It has been suggested by experts that the severe weather that plagued the country in February played a large role in dampening consumers' spirits. The University of Michigan consumer sentiment survey also fell in February but only modestly to 73.6 from January's 74.4. Personal income rose 0.1 percent in January, which marks the slowest rate of growth since September of last year. Even so, income has risen for six consecutive months and wage income rose 0.4 percent in January. Real spending rose 0.3 percent in the same period and the saving rate declined steeply to 3.3 percent from 4.2 percent the previous month. The core personal consumption expenditures (PCE) deflator, the Fed's preferred measure of inflation, has remained essentially unchanged since October, keeping near term inflation concerns muted.

Business indicators painted a picture that is consistent with a slow recovery. New orders for durable goods grew by an impressive 3.0 percent in January. However, this growth was almost entirely due to a surge in civilian aircraft orders. Indeed, when transportation is excluded, orders fell 0.6 percent. It should be noted, though, that January is typically a slow month and thus the overall growth in orders is a positive sign. The Institute for Supply Management's manufacturing index fell to 56.5 in February from 58.4 in January. Despite this decline, the index is still beyond the expansionary threshold of 50 and has been since July 2009. In addition, the employment component of the index rose steadily in February to 56.1 from 53.3, raising hopes that this sector of the economy will stop shedding jobs.

The housing market, while showing signs of stabilization, still struggles to recover. Existing home sales plummeted 7.2 percent in January month-over-month and inventories increased to 7.8 months from 7.2 months in the same period. However compared to a year ago, existing sales are still up 11.5 percent and the median price of an existing home is stabilizing. The rate of new home sales plunged 11 percent in January month-over-month. This marks slowest rate of sales in 47 years. It is hoped, however, that with the extension of the first time homebuyer's tax credit to the end April sales will pick up in the coming months.

The Federal Open Market Committee (FOMC) has not met since our last edition, therefore the federal funds rate remains in the zero to 0.25 percent range. Analysts will be keeping a close eye on the Fed, especially if the Committee continues to espouse increasingly optimistic views on the recovery and therefore may be inclined to raise the target rate. We are of the view that the Fed will likely wind down many of the special programs it has put in place in an effort to remove systemic liquidity before taking any action with respect to raising the fed funds rate. These measures could accelerate later in 2010 if the recovery continues and proves to be stable.

Sector Review

U.S. Treasuries

The treasury market experienced a range-bound month of trading as economic data was largely mixed. The noise surrounding the potential default of Greece's government debt helped the dollar appreciate versus the euro during the month also helped anchor treasury yields at their current levels. This helped blunt a surprise increase in the Federal Reserve discount rate, which was seen to be a harbinger that the Fed is not unprepared to increase the fed funds rate when it believes it to be suitable. The 10-year note yield decreased to a 3.61 percent yield from a 3.58 percent yield over the prior month. The two-year note yield remained at a 0.81 percent yield while the three-month bill saw yields tick slightly upward to 0.11 percent from the prior month's 0.06 percent. (Rates and prices maintain an inverse relationship. Prices decrease as yields increase).

Commercial Paper

The announcement of revised 2(a)7 guidelines and the expiration of certain Federal Reserve emergency funding tools have been largely absorbed by the markets and have not caused any unforeseen bump in short-term yields. Most money market product continued to trade in a range consistent with historical norms. One-month and three-month top-tier, higher quality asset-backed commercial paper (ABCP) and bank names trade between 0.15 percent and 0.20 percent. Some less liquid top-tier ABCP trades in the 0.30 percent to 0.40 percent context in this same maturity range.

U.S. Government Agencies

The Federal Reserve's Agency and Mortgage purchase program has mostly wound down and much discussion continues to surface about options regarding how to manage this $2 trillion of Treasury and Agency assets on the Fed's balance sheet. Still, Agency yields remained largely stable. At month-end, yields on three-month paper yielded near 0.10 percent, six-month paper yielded 0.20 percent, and 12-month paper yielded 0.35 percent.

Strategy

The Federal Reserve continues to maintain its fed funds target range between zero and 0.25 percent. The direction of monetary policy in 2010 is a hotly debated topic and non-traditional monetary policies are likely going to be part of the picture along with typical fed funds rate adjustments. The economy is on a trajectory to register some improvements in growth in the first half of 2010 with the second half of 2010 perhaps cooling off as the effects of government stimulus wanes. It remains a uniquely challenging environment and we plan to continue our focus on being highly defensive by attempting to maintain ample cash while trying to be very selective identifying approved issuers and implementing trade opportunities to add yield when possible.

	DIJA		NASDAQ		S&P 500
2.56%	−0.99%	4.23%	−1.36%	2.85%	−0.95%
Month	Year-to-Date	Month	Year-to-Date	Month	Year-to-Date

The opinions expressed above are those of TrustINdiana and are subject to change without notice. All statistics represent month-end figures unless otherwise noted.

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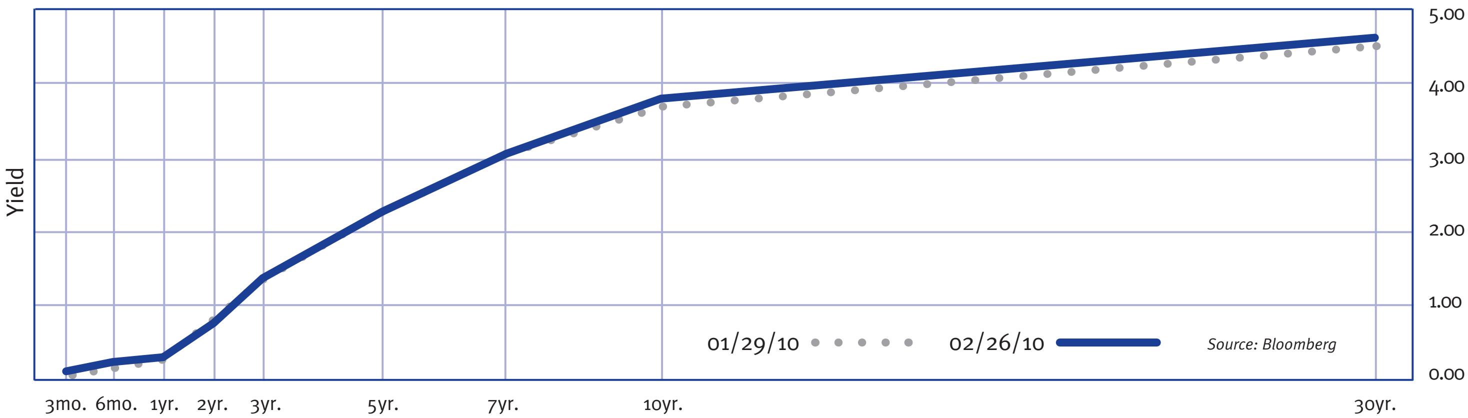
Market Summary for February 2010

WEEK-ENDING RATES AND YIELDS

	02/05	02/12	02/19	02/26	1st QTR AVG
Overnight Rates					
Effective Fed Funds	0.13	0.12	0.13	0.13	0.11
Repurchase Agreements	0.02	0.03	0.05	0.03	0.03
Discount Rates					
1 Month Treasury Bill	0.05	0.04	0.04	0.07	0.03
1 Month Agency Disc.	0.08	0.09	0.09	0.08	0.07
1 Month Com'l Paper	0.15	0.17	0.19	0.15	0.18
3 Month Treasury Bill	0.08	0.08	0.09	0.11	0.07
3 Month Agency Disc.	0.13	0.13	0.15	0.14	0.11
3 Month Com'l Paper	0.24	0.24	0.27	0.24	0.24
6 Month Treasury Bill	0.14	0.15	0.17	0.17	0.15
6 Month Agency Disc.	0.19	0.19	0.22	0.21	0.19
6 Month Com'l Paper	0.33	0.32	0.40	0.32	0.32
Yields					
1 Year Treasury	0.31	0.35	0.39	0.32	0.35
1 Year Agency	0.37	0.40	0.40	0.38	0.40
2 Year Treasury	0.77	0.83	0.92	0.82	0.88
2 Year Agency	0.94	1.00	1.07	0.93	1.04
5 Year Treasury	2.24	2.33	2.45	2.30	2.41
5 Year Agency	2.55	2.66	2.76	2.54	2.70

HISTORICAL YIELD CURVE



KEY ECONOMIC INDICATORS

	For the Period	Date of Release	Expected	Actual	Prior
Unemployment Rate	February	03/05	9.8%	9.7%	9.7%
Consumer Price Index	January	02/19	2.8%	2.6%	2.7%
– Less Food and Energy	January	02/19	1.8%	1.6%	1.8%
Consumer Conf. (CB)	February	02/23	55.0	46.0	55.9
FOMC Rate Decision		01/27	0%–0.25%	0%–0.25%	0%–0.25%
Gross Domestic Product	4Q	02/26	5.7%	5.9%	5.7%

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